

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | |
|---|--------------|-----------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | | County |
| Fiscal Year End | Opinion Date | | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--------------------------|--|----------------|-----|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature | Printed Name | | License Number | |

LAPEER HOUSING COMMISSION

Financial Statements

June 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Lapeer Housing Commission
Management Discussion and Analysis
June 30, 2007

This discussion and analysis of the Lapeer Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

This annual report includes the Management Discussion and Analysis report, the Basic Financial Statements and the Notes to Financial Statements. This report also contains the Financial Data Schedule (FDS) as referenced in the section Supplemental Information. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

| | <u>Year 2007</u> | <u>Year 2006</u> |
|---------------------------|------------------|------------------|
| Operating Subsidies | \$ 86,038 | \$ 91,529 |
| Section 8 Voucher Program | 712,747 | 623,097 |
| Capital Projects Funds | 83,729 | 25,395 |

Comparison of the current year to the past and discussion of significant changes as follows:

| | <u>Year 2007</u> | <u>Year 2006</u> | <u>Net Change</u> |
|--|------------------|------------------|-----------------------|
| Cash & cash equivalents | \$ 615,685 | \$ 560,146 | 55,539 |
| Accounts Receivable | 7,834 | 5,889 | 1,945 |
| Prepaid Expenses | 15,272 | 12,485 | 2,787 |
| Fixed Assets, prior to Depreciation | 2,225,741 | 2,164,362 | 61,379 |
| Total Liabilities | 67,343 | 73,909 | (6,566) |
| Net Assets | 1,485,283 | 1,442,353 | 42,930 |

Lapeer Housing Commission, Management Discussion and Analysis, June 30, 2007-
continued

| | <u>Year 2007</u> | <u>Year 2006</u> | <u>Net Change</u> |
|-----------------------------|------------------|------------------|-----------------------|
| Revenues: | | | |
| Tenant Revenues | 187,782 | 184,865 | 2,917 |
| HUD Grants | 882,514 | 740,021 | 142,493 |
| Other Revenues | 33,273 | 25,769 | 7,504 |
| Expenses: | | | |
| Administrative | 128,546 | 119,656 | 8,890 |
| Tenant Services | 1,090 | 2,158 | (1,948) |
| Utilities | 81,476 | 84,676 | (3,200) |
| Maintenance & Operations | 127,675 | 102,745 | 24,930 |
| General Expenses | 26,700 | 24,969 | 1,731 |
| Depreciation Expense | 85,286 | 83,234 | 5,621 |
| Housing Assistance Payments | 607,112 | 541,442 | 251,195 |
| Other | 2,754 | 0 | (1,364) |
| Net Change in Net Assets | 42,930 | (8,225) | 51,155 |

Our cash position increase \$ 55,539 as a result of net income before depreciation of \$ 128,216; we used the increase to purchase fixed assets (analysed later in this report) and to increase our cash position. Accounts receivable consist of money due to us from HUD; the \$ 1,945 increase is due to requisitions that had not been received by year end. Prepaid expenses consist of prepaid and unexpired insurance premiums, the increase reflects expected increases in the cost of coverage.

Total liabilities decreased \$ 6,566; the decrease occurred in accrued utilities \$ 2,519, accounts payable \$ 1,591, and accrued wages \$ 3,334. These changes are routine and based on timing, no other interpretation should be assumed as these expenses are ordinary.

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year.

The Commission provided the following housing for low to moderately low income families:

| | <u>Year 2007</u> | <u>Year 2006</u> |
|----------------------------|------------------|------------------|
| Low Rent Public Housing | 60 | 60 |
| Housing Assistance Program | 122 | 122 |

General Fund Budgetary Highlights

The Commission approved an operating budget on December 19, 2006 for the fiscal year ending June 30, 2007, we had no occasion to amend the budget.

Significant differences between budget and actual in the Low Rent Program were as follows:

| | <u>Actual</u> | <u>Budget</u> | <u>Difference</u> |
|-----------------------|---------------|---------------|-------------------|
| Investment Income | \$ 25,102 | \$ 4,000 | \$ 21,102 |
| Utilities | 81,476 | 95,000 | (13,524) |
| Maintenance Materials | 22,712 | 16,000 | 6,712 |
| Net Income (Loss) | \$ 42,930 | \$ 14,480 | \$ 28,450 |

Investment income budgeted was based on a conservative estimate of cash balances; at the time of passing our original budget, the funding of programs was uncertain. A similar situation exists in the current year as the Subsidy and Grants Information System (SAGIS) was supposed to be available to us by HUD on October 15, 2007- it is now shut down until February 19, 2008. The SAGIS system is the funding mechanism for our subsidies and grants for calendar year 2008; HUD is funding us currently at 2005 levels, therefore trying to predict cash flows for investment purposes is difficult at best. The actual cash levels and interest rates turned out to be much better than originally forecasted.

Utility budgets consist of a three year rolling base; the actual results reflect conservation measures which we have enforced in the current year. We have installed low wattage bulbs where it proved to be cost effective, a new high efficiency boiler, new exterior doors, have encouraged conserving water and insulated areas to minimize heating cost. In addition, we enjoyed a mild winter in the past year which also contributed to lower utility bills.

Maintenance materials increased beyond normal expected price increases due to a number of move outs during the year. Such events requires additional cost in materials to paint and prepare units for re-renting.

The above significant differences between budget and actual contributed to a more successful year than originally anticipated.

Lapeer Housing Commission, Management Discussion and Analysis, June 30, 2007-
continued

Entity Wide Capital Assets

The fixed assets increased \$ 61,379 during the year; these increases consisted of the following additions:

New Boiler \$ 45,260, energy efficient exterior doors \$ 6,744, office and community room furniture \$ 5,175.

The following represents an analysis of our fixed assets:

| | <u>Beginning of Year</u> | <u>Additions</u> | <u>Deletions</u> | <u>End of Year</u> |
|------------------------------------|------------------------------|--------------------|------------------|------------------------|
| Land | \$ 56,400 | \$ | \$ | \$ 56,400 |
| Buildings | 1,218,086 | | | 1,218,086 |
| Furniture & Equipment-Dwellings | 23,376 | | | 23,376 |
| Furniture & Equipment-Admin | 74,861 | 4,200 | | 79,061 |
| Leasehold Improvements | <u>791,639</u> | <u>57,179</u> | | <u>848,818</u> |
| | \$ 2,164,362 | \$ 61,379 | \$ | \$ 2,225,741 |
| Less Accumulated Depreciation | <u>1,226,620</u> | <u>85,286</u> | | <u>1,311,906</u> |
| | \$ <u>937,742</u> | \$ <u>(23,907)</u> | \$ | \$ <u>913,835</u> |

Commission's Position

The Commission plans to use the 2007 Capital Fund Program for operations and minor building improvements. We believe all major improvements have been completed.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Sara Coulter, Executive Director
Lapeer Housing Commission
544 North Saginaw
Lapeer Michigan 48446

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Lapeer Housing Commission
576 Liberty Park
Lapeer, Michigan 48446

Independent Auditor's Report

I have audited the financial statements of the Lapeer Housing Commission Business Type Activities as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lapeer Housing Commission as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2007, on my consideration of the Lapeer Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Required Supplemental Information

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

January 12, 2008

LAPEER HOUSING COMMISSION
Statement of Net Assets
June 30, 2007

ASSETS

C-3007

CURRENT ASSETS

| | | | |
|-------------------------|----|---------------|---------|
| Cash & Cash Equivalents | \$ | 615,685 | |
| Accounts Receivable | | 7,834 | |
| Prepaid Expenses | | <u>15,272</u> | |
| Total Current Assets | \$ | | 638,791 |

NON CURRENT ASSETS

| | | | |
|--------------------------------------|----|--------------------|----------------|
| Land | \$ | 56,400 | |
| Buildings | | 1,218,086 | |
| Furniture, Equipment- Dwellings | | 23,376 | |
| Furniture, Equipment- Administrative | | 79,061 | |
| Leasehold Improvements | | 848,818 | |
| Accumulated Depreciation | | <u>(1,311,906)</u> | |
| Total Non Current Assets | | | <u>913,835</u> |

| | | |
|---------------------|----|------------------|
| <u>TOTAL ASSETS</u> | \$ | <u>1,552,626</u> |
|---------------------|----|------------------|

LAPEER HOUSING COMMISSION
Statement of Net Assets
June 30, 2007

LIABILITIES

C-3007

CURRENT LIABILITIES

| | |
|------------------------------------|--------------|
| Accounts Payable | \$ 11,518 |
| Accrued Wages & Payroll Taxes | 10,285 |
| Accounts Payable- Other Government | 8,859 |
| Compensated Absences | 1,318 |
| Tenants Security Deposit | 15,320 |
| Deferred Revenue | 142 |
| Accrued Utilities | <u>8,034</u> |

| | |
|----------------------------------|-----------|
| <u>Total Current Liabilities</u> | \$ 55,476 |
|----------------------------------|-----------|

NONCURRENT LIABILITIES

| | |
|--------------------------|---------------|
| Compensated Absences | <u>11,867</u> |
| <u>Total Liabilities</u> | \$ 67,343 |

Net Assets:

| | |
|---|-------------------------|
| Investment in Fixed Assets net of Related Debt | \$ 913,835 |
| Unrestricted Net Assets | <u>571,448</u> |
| <u>Total Net Assets</u> | <u>1,485,283</u> |
| <u>TOTAL LIABILITIES & NET ASSETS</u> | \$ <u>1,552,626</u> |

The Accompanying Footnotes are an Integral Part of the Financial Statements.

LAPEER HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2007

OPERATING REVENUE

| | | |
|--------------------------------|--------------|--------------|
| Tenant Rental Revenue | \$ 185,068 | |
| Tenant Revenue-Other | 2,714 | |
| HUD Grants | 821,134 | |
| Interest Income | 25,102 | |
| Other Income | <u>8,171</u> | |
| <u>Total Operating Revenue</u> | | \$ 1,042,189 |

OPERATING EXPENSES

| | | |
|---------------------------------|--------------|------------------|
| Administrative | \$ 128,546 | |
| Tenant Services | 1,090 | |
| Utility Expenses | 81,476 | |
| Ordinary Maintenance | 127,675 | |
| General Expenses | 26,700 | |
| Housing Assistance Payments | 607,112 | |
| Depreciation Expense | 85,286 | |
| Extra Ordinary Maintenance | <u>2,754</u> | |
| <u>Total Operating Expenses</u> | | <u>1,060,639</u> |
| <u>Operating Income (Loss)</u> | | \$ (18,450) |

CAPITAL CONTRIBUTIONS 61,380

| | |
|------------------------------|---------------------|
| <u>Changes in Net Assets</u> | \$ 42,930 |
| Total Net Assets- Beginning | <u>1,442,353</u> |
| Total Net Assets- Ending | <u>\$ 1,485,283</u> |

The Accompanying Notes are an Integral part of the Financial Statements

LAPEER HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|---------------|
| Receipts from Customers | \$ 187,793 |
| Payments to Suppliers | (883,211) |
| Payments to Employees | (103,451) |
| HUD Grants | 882,514 |
| Other Receipts (Payments) | <u>33,273</u> |
| Net Cash Provided (Used) by Operating Activities | \$ 116,918 |

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

| | |
|---|--------------------|
| Purchases of Capital Assets | \$ <u>(61,379)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 55,539 |
| Cash Balance- Beginning of Year | <u>560,146</u> |
| Cash Balance- End of Year | \$ <u>615,685</u> |

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

| | |
|---|-------------------|
| Net Profit or (Loss) | \$ 42,930 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation | 85,284 |
| Changes in Assets (Increase) Decrease: | |
| Receivables (Gross) | (1,945) |
| Prepaid Expenses | (2,787) |
| Changes in Liabilities Increase (Decrease): | |
| Accounts Payable | (1,591) |
| Accrued Liabilities | (5,853) |
| Accounts Payable-Other Governments | 523 |
| Accrued Compensated Absences | 319 |
| Security Deposits | (104) |
| Deferred Revenue | <u>142</u> |
| Net Cash Provided by Operating Activities | \$ <u>116,918</u> |

The Accompanying Notes are an Integral part of the Financial Statements

LAPEER HOUSING COMMISSION
Notes to Financial Statements
June 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Lapeer Housing Commission, Lapeer, Michigan, (Commission) was created by ordinance of the city of Lapeer. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

| | | |
|------------|--------------------|-----------|
| MI 103-001 | Low rent program | 60 units |
| MI 103 | Section 8 Vouchers | 122 units |

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with the Governmental Accounting Standards (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

| | |
|----------------------------|------------|
| Buildings and Improvements | 40 years |
| Equipment | 3-10 years |

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

| | |
|--------------------------------|-------------------|
| General Fund Checking Accounts | \$ 79,546 |
| Money Market Fund | 536,039 |
| Petty Cash | <u>100</u> |
| Financial Statement Total | \$ <u>615,685</u> |

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

| | Categories | | | Carrying Amount | Market Value |
|--------------------|-------------------|----|----|--------------------|-------------------|
| | 1 | 2 | 3 | | |
| Cash: | | | | | |
| Checking A/C's | \$ 79,546 | \$ | \$ | \$ 79,546 | \$ 79,546 |
| Money Market A/C's | 536,039 | | | 536,039 | 536,039 |
| Petty Cash | <u>100</u> | | | <u>100</u> | <u>100</u> |
| Total Cash | \$ <u>615,685</u> | \$ | \$ | \$ <u>615,685</u> | \$ <u>615,685</u> |

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

| | |
|------------------------------|-----------------|
| Accounts Receivable- Tenants | \$ 2 |
| Accounts Receivable- HUD | <u>7,832</u> |
| | \$ <u>7,834</u> |

Note 4: Prepaid Expenses

Prepaid expenses consists of unexpired insurance premiums.

Notes to Financial Statements- continued

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

| | <u>Beginning of Year</u> | <u>Additions</u> | <u>Deletions</u> | <u>End of Year</u> |
|------------------------------------|------------------------------|--------------------|------------------|------------------------|
| Land | \$ 56,400 | \$ | \$ | \$ 56,400 |
| Buildings | 1,218,086 | | | 1,218,086 |
| Furniture & Equipment-Dwellings | 23,376 | | | 23,376 |
| Furniture & Equipment-Admin | 74,861 | 4,200 | | 79,061 |
| Leasehold Improvements | <u>791,639</u> | <u>57,179</u> | | <u>848,818</u> |
| | \$ 2,164,362 | \$ 61,379 | \$ | \$ 2,225,741 |
| Less Accumulated Depreciation | <u>1,226,620</u> | <u>85,286</u> | | <u>1,311,906</u> |
| | \$ <u>937,742</u> | \$ <u>(23,907)</u> | \$ | \$ <u>913,835</u> |

Note 6: Pension Plan

The Commission participates in the City of Lapeer pension plan; however, at the time of the audit, no Commission employees were eligible for the plan.

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

| <u>Types of Policies</u> | <u>Coverage's</u> |
|--|-------------------|
| Property | \$ 7,876,800 |
| General Liability | 1,000,000 |
| Errors & Omissions | 1,000,000 |
| Automobile | 1,000,000 |
| Worker's Compensation and other riders: | |
| Coverage's required by the State of Michigan | |

Mt. Clemens Housing Commission

30-Jun-07

MI028

| Combining Balance Sheet | | Low Rent 14.850 | Section 8 New Construction | Capital Projects Funds 14.872 | TOTAL |
|-------------------------|--|-----------------|----------------------------|-------------------------------|-------------|
| Line Item # | | | | | |
| | ASSETS: | | | | |
| | CURRENT ASSETS: | | | | |
| | Cash: | | | | |
| 111 | Cash - unrestricted | 893,378 | 73,361 | - | 966,739 |
| 112 | Cash - restricted - modernization and developmen | - | | | - |
| 113 | Cash - other restricted | | | | - |
| 114 | Cash - tenant security deposits | 62,668 | | | 62,668 |
| 100 | Total cash | 956,046 | 73,361 | - | 1,029,407 |
| | Accounts and notes receivables: | | | | |
| 121 | Accounts receivable - PHA projects | | | | - |
| 122 | Accounts receivable - HUD other projects | 5,800 | - | 30,265 | 36,065 |
| 124 | Accounts receivable - other governmen | | | | - |
| 125 | Accounts receivable - miscellaneous | - | | | - |
| 126 | Accounts receivable- tenants - dwelling rents | 13,205 | | | 13,205 |
| 126.1 | Allowance for doubtful accounts - dwelling rents | (486) | | | (486) |
| 126.2 | Allowance for doubtful accounts - other | | | | - |
| 127 | Notes and mortgages receivable- curren | | | | - |
| 128 | Fraud recovery | 6,808 | | | 6,808 |
| 128.1 | Allowance for doubtful accounts - fraud | (6,808) | | | (6,808) |
| 129 | Accrued interest receivable | | | | - |
| 120 | Total receivables, net of allowances for doubtful account: | 18,519 | - | 30,265 | 48,784 |
| | Current investments | | | | - |
| 131 | Investments - unrestricted | 100,000 | | | 100,000 |
| 132 | Investments - restricted | | | | - |
| | Prepaid expenses and other assets | 6,428 | | | 6,428 |
| 143 | Inventories | | | | - |
| 143.1 | Allowance for obsolete inventories: | | | | - |
| 144 | Interprogram - due from | 68,209 | - | - | 68,209 |
| 146 | Amounts to be provided | | | | - |
| 150 | TOTAL CURRENT ASSETS | 1,149,202 | 73,361 | 30,265 | 1,252,828 |
| | NONCURRENT ASSETS: | | | | |
| | Fixed assets: | | | | |
| 161 | Land | 725,000 | | | 725,000 |
| 162 | Buildings | 6,299,325 | | | 6,299,325 |
| 163 | Furniture, equipment & machinery - dwellings | 31,815 | - | - | 31,815 |
| 164 | Furniture, equipment & machinery - admininstrator | 156,208 | - | 619 | 156,827 |
| 165 | Leasehold improvements | 6,903,656 | | 303,215 | 7,206,871 |
| 166 | Accumulated depreciation | (8,809,334) | - | (2,893) | (8,812,227) |
| 160 | Total fixed assets, net of accumulated depreciator | 5,306,670 | - | 300,941 | 5,607,611 |
| 171 | Notes and mortgages receivable - non-curren | | | | - |
| 172 | Notes and mortgages receivable-non-current-past due | | | | - |
| 174 | Other assets | | | | - |
| 175 | Undistributed debits | | | | - |
| 176 | Investment in joint ventures | | | | - |
| 180 | TOTAL NONCURRENT ASSETS | 5,306,670 | - | 300,941 | 5,607,611 |
| 190 | TOTAL ASSETS | 6,455,872 | 73,361 | 331,206 | 6,860,439 |

| | | | | | |
|-------|--|------------------|----------------|----------------|------------------|
| | LIABILITIES AND EQUITY: | | | | |
| | LIABILITIES: | | | | |
| | CURRENT LIABILITIES | | | | |
| 311 | Bank overdraft | | | | - |
| 312 | Accounts payable ≤ 90 days | 26,521 | 750 | | 27,271 |
| 313 | Accounts payable > 90 days past due | | | | - |
| 321 | Accrued wage/payroll taxes payable | 59,436 | - | | 59,436 |
| 322 | Accrued compensated absences | 7,600 | | | 7,600 |
| 324 | Accrued contingency liability | | - | | - |
| 325 | Accrued interest payable | | | | - |
| 331 | Accounts payable - HUD PHA programs | | 18,185 | | 18,185 |
| 332 | Accounts Payable - PHA Projects | | | | |
| 333 | Accounts payable - other government | 21,918 | - | - | 21,918 |
| 341 | Tenant security deposits | 62,668 | | | 62,668 |
| 342 | Deferred revenues | 6,149 | - | - | 6,149 |
| 343 | Current portion of Long-Term debt - capital projects | 38,516 | | | 38,516 |
| 344 | Current portion of Long-Term debt - operating borrowings | | | | - |
| 345 | Other current liabilities | 47,749 | | 25,136 | 72,885 |
| 346 | Accrued liabilities - other | - | - | | - |
| 347 | Inter-program - due to | - | 63,080 | 5,129 | 68,209 |
| 310 | TOTAL CURRENT LIABILITIES | 270,557 | 82,015 | 30,265 | 382,837 |
| | NONCURRENT LIABILITIES: | | | | |
| 351 | Long-term debt, net of current- capital projects | 126,002 | | | 126,002 |
| 352 | Long-term debt, net of current- operating borrowings | | | | - |
| 353 | Noncurrent liabilities- other | - | | | - |
| 354 | Accr. Comp. Absences- non current | 68,400 | | | 68,400 |
| 350 | TOTAL NONCURRENT LIABILITIES | 194,402 | - | - | 194,402 |
| 300 | TOTAL LIABILITIES | 464,959 | 82,015 | 30,265 | 577,239 |
| | EQUITY: | | | | |
| 501 | Investment in general fixed assets | | | | - |
| | Contributed Capital: | | | | |
| 502 | Project notes (HUD) | - | | | - |
| 503 | Long-term debt - HUD guaranteed | - | | | - |
| 504 | Net HUD PHA contributions | - | | | - |
| 505 | Other HUD contributions | | | | - |
| 507 | Other contributions | - | | | - |
| 508 | Total Contributed Capital | - | - | - | - |
| 508.1 | Invested in Capital Assets, Net of Related Debt | 5,142,152 | - | 300,941 | 5,443,093 |
| | Reserved fund balance: | | | | |
| 509 | Reserved for operating activities | | | | - |
| 510 | Reserved for capital activities | | | | - |
| 511 | Total reserved fund balance | - | - | - | - |
| 512 | Undesignated fund balance/retained earnings | - | - | - | - |
| 512.1 | Unrestricted Net Assets | 848,761 | (8,654) | - | 840,107 |
| 513 | TOTAL EQUITY | 5,990,913 | (8,654) | 300,941 | 6,283,200 |
| 600 | TOTAL LIABILITIES AND EQUITY | 6,455,872 | 73,361 | 331,206 | 6,860,439 |

- - - -

Mt. Clemens Housing Commission

30-Jun-07

MI028

| Combining Income Statement | | Low Rent 14.850 | Section 8 New Construction | Capital Projects Funds 14.872 | TOTAL |
|----------------------------|---|-----------------|----------------------------|-------------------------------|-----------|
| Line Item # | | | | - | |
| | REVENUE: | - | - | | |
| 703 | Net tenant rental revenue | 595,222 | | | 595,222 |
| 704 | Tenant revenue - other | 17,622 | | | 17,622 |
| 705 | Total tenant revenue | 612,844 | - | - | 612,844 |
| 706 | HUD PHA grants | 702,504 | 1,810,862 | 367,038 | 2,880,404 |
| 708 | Other government grants | | | | - |
| 711 | Investment income - unrestricted | 46,745 | 10,218 | - | 56,963 |
| 712 | Mortgage interest income | | | | - |
| 714 | Fraud recovery | | | | - |
| 715 | Other revenue | 62,702 | - | - | 62,702 |
| 716 | Gain or loss on the sale of fixed assets | - | | | - |
| 720 | Investment income - restrictec | | | | - |
| 700 | TOTAL REVENUE | 1,424,795 | 1,821,080 | 367,038 | 3,612,913 |
| | EXPENSES: | | | | |
| | Administrative | | | | |
| 911 | Administrative salaries | 96,692 | 80,000 | 75,538 | 252,230 |
| 912 | Auditing fees | 5,775 | - | | 5,775 |
| 913 | Outside management fees | | | | - |
| 914 | Compensated absences | (1,181) | | | (1,181) |
| 915 | Employee benefit contributions- administrative | 61,003 | 39,000 | - | 100,003 |
| 916 | Other operating- administrative | 40,597 | 10,285 | 13,839 | 64,721 |
| | Tenant services | | | | |
| 921 | Tenant services - salaries | | | | - |
| 922 | Relocation costs | - | | | - |
| 923 | Employee benefit contributions- tenant services | | | | - |
| 924 | Tenant services - other | 146 | | | 146 |
| | Utilities | | | | |
| 931 | Water | 146,551 | | | 146,551 |
| 932 | Electricity | 75,467 | | | 75,467 |
| 933 | Gas | 98,454 | | | 98,454 |
| 934 | Fuel | | | | - |
| 935 | Labor | | | | - |
| 937 | Employee benefit contributions- utilities | | | | - |
| 938 | Other utilities expense | - | | | - |
| | Ordinary maintenance & operation | | | | |
| 941 | Ordinary maintenance and operations - labor | 186,068 | | | 186,068 |
| 942 | Ordinary maintenance and operations - materials & other | 40,685 | | 685 | 41,370 |
| 943 | Ordinary maintenance and operations - contract costs | 285,604 | | 13,383 | 298,987 |
| 945 | Employee benefit contributions- ordinary maintenance | 118,418 | | | 118,418 |
| | Protective services | | | | |

LAPEER HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

| | <u>Annual Program Expenditures</u> |
|--|--|
| <u>CFDA 14.850 Public and Indian Housing</u> | |
| C-3007 Operating Subsidies | \$ <u>86,038</u> |
| * <u>CFDA 14.855 Housing Assistance Programs</u> | |
| C-3007 Section 8 Housing Choice Vouchers | \$ <u>712,747</u> |
| <u>CFDA 14.872 Capital Projects Grants</u> | |
| C-3007 Capital Projects Funds | \$ <u>83,729</u> |
| | \$ <u>882,514</u> |

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

LAPEER HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2007

The prior audit of the Lapeer Housing Commission for the period ended June 30, 2006, contained one audit finding. The corrective action is as follows:

- 1) Annual Leases- the Commission adopted an acceptable annual lease.

LAPEER HOUSING COMMISSION
Report on Internal Control over Financial Reporting and on
Compliance and Other Matters based on an Audit of
Financial Statements Performed in Accordance with
Governmental Auditing Standards
June 30, 2007

I have audited the financial statements of the Lapeer Housing Commission of Lapeer, Michigan, as of and for the year ended June 30, 2007, and have issued my report thereon dated January 12, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency*, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
January 12, 2008

LAPEER HOUSING COMMISSION
Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133
June 30, 2007

Compliance

I have audited the compliance of the Lapeer Housing Commission of Lapeer, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. My responsibility is to express an opinion on the Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Commission's compliance with those requirements.

In my opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be a material weaknesses, as defined above.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
January 12, 2008

LAPEER HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2007

Summary of Auditor's Results:

Programs:

| | <u>Major Program</u> | <u>Non Major Program</u> |
|-----------------------------------|----------------------|--------------------------|
| Low income Public Housing | | X |
| Section 8 Housing Choice Vouchers | X | |
| Capital Projects Fund | | X |

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Control Deficiency (ies) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____ Yes X No

Control Deficiency (ies) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

| <u>Name of Federal Program</u> | <u>Major Program</u> | <u>Questioned Costs</u> | <u>Audit Finding Number</u> |
|-----------------------------------|----------------------|-------------------------|-----------------------------|
| Low Rent Public Housing | No | None | N/A |
| Section 8 Housing Choice Vouchers | Yes | None | N/A |
| Capital Projects Fund | No | None | N/A |